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SUBJECT: PM Brown Calls for International Cooperation To Weather Global Turbulence As UK Faces "Decisive" Year

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¶11. (SBU) Summary: Britain is well placed to withstand the global economic turbulence because of its low inflation, a history of stability and high employment levels, the Prime Minister said during interviews January 4. Gordon Brown said the length of the economic crisis will depend on the degree of international coordination. He hopes the April G20 summit will increase the level of international action. He discussed the need to reform the World Bank and the IMF in light of the crisis and to increase global supervision through a college of regulators. Domestically, 2009 will be a "decisive" year, according to Brown, with large-scale fiscal stimulus projects and the potential for a second round of bank recapitalization. End summary.

Brown: UK Well Placed To Withstand Global Turbulence

¶12. (U) Britain is better placed than most countries to withstand global turbulence because of its economic resilience, according to Prime Minister Brown. During a January 4 interview with "The Observer", Brown said that without previously made, long-term decisions, such as capping public sector pay, the UK would have entered this testing time without the same degree of flexibility and resilience. He said the UK was better positioned because of low inflation, a history of stability, and high employment levels. The Prime Minister added that HMG's financial decisions to rescue Northern Rock, improve the transparency of financial institutions, work towards reform of the international institutions, and to adopt a better early warning system will help the economy withstand the turbulence.

International Cooperation: The April G20 Summit

¶13. (U) The length of the economic crisis will depend on the level of international cooperation. During a January 4 BBC television interview, Brown said the effect of action taken in Britain could be magnified twice over if other countries acted in parallel. He added that the global financial crisis has to be dealt with, at least partly, by global cooperation. He said the April 2nd G20 Summit will be used to persuade countries of the importance of international action. He stressed that with the new U.S. administration working with the European Union, real progress can be made in April.

¶14. (U) The new year provides an opportunity to rebuild the international institutions, according to the PM. In his interview with "The Observer", Brown said the IMF and World Bank were built for a particular set of challenges and need to be rebuilt for the future. He would like the World Bank to be a bank for environment as well as development, potentially investing billions in alternative energy sources for the poorest countries. He said the IMF should offer an early warning system for the world economy so

that countries do not get caught up in global financial turbulence without being alerted in advance of the problems. Brown told the BBC's Andrew Marr that the global crisis was the result of the world financial system not being properly supervised. He said that without supervision across borders, namely a college of regulators that will supervise multinational companies, it would be very difficult to monitor exactly what was happening.

"A Decisive Year": Domestic Strategy

15. (U) Out of an 18 billion pound capital investment program announced in the Chancellor's November pre-Budget Report, only one billion has been spent. Gordon Brown told Andrew Marr that people will begin to see increased economic activity as the remaining 17 billion is spent over the next few months. It will be spent on public works, on keeping people in their jobs, on environmental projects, and helping more people go to university. Brown said 2009 will prove a "decisive" year with a number of large infrastructure and spending decisions. Legislation is being considered on CrossRail (a train line running east to west across London), on expansion of Heathrow airport, and on a housing bill that would result in three million new homes over the next few years. (Note: the UK has a shortage of affordable housing stock.) Brown told "The Observer" that spending on public works programs would lead to as many as 100,000 new jobs and act as a counter to the recession.

16. (U) Brown said it was necessary to use fiscal policy because monetary policy did not have the proper transmission mechanism through banks to make it most effective. He said that if the monetary system did not work as it should, if there were no likelihood of huge inflation, if private investment were not being crowded, then government should use fiscal policy. Brown told Marr that President-elect Obama's inauguration will be an important moment because of the huge economic program he has promised. He

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said the U.S. will join the UK in working with a fiscal expansion program.

17. (U) Marr criticized Brown for failing to get banks lending again, despite the money spent on bank recapitalization, and speculated that more money will need to be put into banks to get money to small businesses. Brown said it was not possible to judge the success of the recapitalization so early. He said saving the banks was necessary to help restore their ability to fund businesses and mortgages. Domestic media has taken Brown's refusal to deny that more money will be used to recapitalize British banks as a sign that HM Treasury was considering such a move.

TUTTLE